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DEC 29 2006

BEFORE THE
INDIANA UTILITY
REGULATORY COMMISSION
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF DIRECTORS)
FOR UTILITIES OF THE DEPARTMENT OF)
PUBLIC UTILITIES OF THE CITY OF)
INDIANAPOLIS, AS SUCCESSOR TRUSTEE)
OF A PUBLIC CHARITABLE TRUST, D/B/A)
CITIZENS THERMAL ENERGY FOR (1))
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR STEAM UTILITY SERVICE, (2))
APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES APPLICABLE)
THERE TO, (3) APPROVAL OF CHANGES TO ITS)
GENERAL TERMS AND CONDITIONS FOR)
STEAM SERVICE, (4) APPROVAL OF NEW)
DEPRECIATION ACCRUAL RATES, AND (5))
APPROVAL FOR THE QUARTERLY FILING OF)
FUEL COST ADJUSTMENT APPLICATIONS.)

CAUSE NO. **43201**

VERIFIED PETITION

The Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as successor trustee of a public charitable trust, d/b/a Citizens Thermal Energy ("Petitioner"), respectfully petitions the Indiana Utility Regulatory Commission ("Commission") for: (i) authority to increase its rates and charges for steam utility service; (ii) approval of a new schedule of rates and charges applicable thereto; (iii) approval of certain changes to its general terms and conditions for steam service; (iv) approval of new depreciation accrual rates; and (v) approval to file a quarterly fuel cost adjustment ("FAC") application in lieu of an annual FAC application. In support of its Verified Petition, Petitioner respectfully shows the Commission:

Nature of Petitioner and Regulatory Status

1. Petitioner is the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as successor trustee of a public charitable trust, d/b/a Citizens Thermal Energy. Its principal office is at 2020 North Meridian Street, Indianapolis, Indiana 46202. As of September 30, 2006, Petitioner provided steam service to 259 customers in the City of Indianapolis, Indiana through steam production and distribution facilities purchased in November 2000 from Indianapolis Power & Light Company ("IPL"). The Commission approved Petitioner's purchase of those facilities from IPL by Order entered October 4, 2000 in Cause No. 41716.

2. Petitioner provides adequate and efficient steam service to the public in the downtown and near downtown area in the City of Indianapolis, Indiana by means of steam utility plant, properties, equipment and facilities owned, operated, managed and controlled by it, which are used and useful for the convenience of the public. Pursuant to the terms of Indiana Code § 8-1-11.1-3(a), Petitioner is charged by law with the duty of, and has all the necessary power and authority to furnish and sell services and products of, and to make all necessary construction, reconstruction, repairs, renewals, enlargements, extensions or additions to its plant and property, which in its judgment, are "desirable or necessary for the proper conduct of such business and the proper serving of the inhabitants of the city and adjacent, contiguous or suburban communities or territory" within Marion County, Indiana.

4. Petitioner is a municipal steam utility subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana, including certain provisions of the Public Service Commission Act, as amended.

5. Petitioner's rates and charges, and its terms and conditions for steam service, are subject to the approval of this Commission by virtue of the provisions of Indiana Code § 8-1-

11.1-3(c)(9). Pursuant to Indiana Code § 8-1-11.1-3.1, Petitioner has all rights and powers conferred upon a municipally owned utility and operates as both the board and the municipal legislative body for purposes of Indiana Code § 8-1.5-3-8.

6. Under the provisions of Indiana Code § 8-1.5-3-8, Petitioner is required by law to “furnish reasonably adequate services and facilities.” Petitioner’s steam utility system is properly maintained and is in satisfactory physical condition to render reasonably adequate service to its customers.

7. Pursuant to Indiana Code § 8-1.5-3-8, rates and charges made by Petitioner for any service rendered or to be rendered, either directly or in connection therewith, “must be nondiscriminatory, reasonable, and just.” Petitioner is obligated by law to maintain rates and charges for any service rendered by it to “produce an income sufficient to maintain the utility property in a sound physical and financial condition to render adequate and efficient service.” Indiana Code § 8-1.5-3-8(d). Petitioner needs to increase its revenues and income from the furnishing of steam utility service so that it can continue to operate and maintain its steam utility system in satisfactory physical condition to render reasonably adequate service to its customers and to meet the requirements for reasonable and just rates and charges for services under Indiana Code § 8-1.5-3-8(c) and (d).

Petitioner’s Present Rates and Charges

8. On November 20, 2000, Petitioner placed into effect a Steam Service Tariff, Rates, Terms and Conditions for Steam Service Within Marion County, Indiana, as authorized by the Commission in its October 4, 2000 Order in Cause No. 41716. In the foregoing Order, the Commission found that “the Board should adopt IPL’s current rates and charges, as well as its terms and conditions for service.” Order at p.7. IPL’s rates and charges, and terms and

conditions, for steam service were previously established in a 1992 steam rate case. See Commission Order in Cause No. 39440, entered January 13, 1993.

9. Petitioner's schedule of rates and charges for steam utility service also includes Standard Contract Rider No. 1, Fuel Cost Adjustment (Applicable to Rate 1 and Rate 2). The FAC set forth in Standard Contract Rider No. 1 is revised once each year effective June 1st. As a result of a Settlement Agreement, which the Commission approved in Cause No. 41969FC3S1, Petitioner's revisions to its FAC are subject to an "earnings test." See Order entered June 23, 2004 in Cause No. 41969FC3S1. The Commission approved \$7,850,000 as the amount of Petitioner's "authorized earnings," or net operating income, for purposes of determining the fuel cost adjustment factor in FAC 5 and thereafter until Petitioner's next general rate case. The amount of Petitioner's "authorized earnings" for purposes of its FAC filings will be reset to the level of net operating income authorized by final Order in this general rate proceeding.

10. Petitioner's operation and maintenance expenses and investments in plant and extensions and replacements have increased since April 30, 1992, the close of the test year in Cause No. 39440. Accordingly, Petitioner's rates and charges for steam utility service, as approved by the Commission in Cause No. 41716, and as thereafter modified by annual fuel cost adjustments, result in the collection of revenues which do not meet the requirements of reasonable and just rates and charges set forth in Indiana Code § 8-1.5-3-8. Therefore, Petitioner's rates and charges are and will be too low and insufficient to:

(1) Pay all the legal and other necessary expenses incident to the operation of the utility, including:

- (A) Maintenance costs;
- (B) Operating charges;
- (C) Upkeep;
- (D) Repairs;
- (E) Depreciation; and

(F) Interest charges on bonds or other obligations, including leases;

(2) Provide a sinking fund for the liquidation of bonds or other obligations, including leases;

(3) Provide a debt service reserve for bonds or other obligations, including leases, in an amount established by the [Board of Directors], not to exceed the maximum annual debt service on the bonds or obligations or the maximum annual lease rentals;

(4) Provide adequate money for working capital;

(5) Provide adequate money for making extensions and replacements to the extent not provided for through depreciation in subdivision (1); and

(6) Provide money for the payment of any taxes that may be assessed against the utility.

Therefore, Petitioner's rates and charges presently in effect are unlawful under Indiana Code § 8-1.5-3-8.

Petitioner's Proposed Rates

11. Petitioner proposes, subject to the authorization and approval of this Commission, to cancel its existing schedule of rates and charges for steam utility service and to file with the Commission, in lieu thereof, a new schedule of rates and charges which will provide it with reasonable and just charges for services within the meaning of Indiana Code § 8-1.5-3-8.

12. Petitioner's proposed revised schedule of rates and charges for steam utility service will be accompanied by the prepared direct testimony and exhibits of Petitioner's witnesses and will be filed with the Commission prior to the commencement of public hearings on Petitioner's case-in-chief.

13. In accordance with 170 IAC 1-1.1-9(b), Petitioner proposes and requests that the 12-month period ended September 30, 2006 be the test year fixed by the Commission, and that the cut-off date for adjustments that are reasonably known, fixed, and measurable, be within

twelve months following the close of the test year, and that the cut-off date for valuing Petitioner's plant in service be September 30, 2007. The September 30, 2007 cut-off date will allow improvements, which must be made in order to comply with federal MACT regulations to be considered in the valuation Petitioner's plant in service. Petitioner is unable at this time to determine the exact revenue requirements of its steam service operations as of the 12-months ended September 30, 2006 and, therefore, is unable to determine the exact amount of the increase in its base rates and charges for steam utility service which will be required, but Petitioner requests that the Commission approve revised rates and charges for Petitioner's use which will produce an income sufficient to meet the requirements of Indiana Code § 8-1.5-3-8.

New Depreciation Accrual Rates

14. Petitioner has prepared and will present a depreciation study as part of its case-in-chief. Petitioner requests Commission approval of revisions to its depreciation accrual rates for its steam utility plant in accordance with the results of that study.

Quarterly Fuel Cost Adjustment Filings

15. Petitioner proposes a change to the frequency of its fuel cost adjustment filings from an annual to a quarterly basis. The parties to the Settlement Agreement in IPL's Cause No. 39440, which was approved by the Commission on January 13, 1993, agreed that IPL would change its fuel cost adjustment on an annual basis, rather than the customary quarterly basis. That agreement was made at a time when the steam fuel mix and fuel prices were more predictable, and as a result IPL's fuel costs were relatively stable. At that time, changes to IPL's steam fuel cost adjustment on a quarterly basis were minimal, and the parties agreed that an annual fuel cost adjustment change would be appropriate. In more recent years, fuel prices have become more volatile and the steam fuel mix is subject to considerable change during the course

of a year, resulting in significant fuel cost variances by year's end that must be recovered or refunded during the subsequent 12-month period.

16. Changing the frequency of Petitioner's fuel cost adjustments from annually to quarterly will provide a more market-responsive fuel cost rate, thus sending more appropriate price signals to customers. Market responsive rates will send an appropriate price signal to customers in real time so customers can react accordingly.

17. A shorter reconciliation period (i.e., quarterly rather than annually) also will allow Petitioner to address any causes of variances more efficiently.

18. Quarterly changes to Petitioner's fuel cost adjustment also will keep fuel cost variances at a minimum level. When levels of fuel cost variances are reduced it helps keep working capital needs and expenses of Petitioner at a more reasonable level during periods of under recovery, and prevents customers from paying too much during periods of over recovery.

Procedural Matters

19. Petitioner will publish notice to its customers of the filing of this Verified Petition and the requested upward adjustment to its rates and charges.

20. Petitioner proposes that its new rates and charges be based upon its steam utility operations at September 30, 2006 and the results of its operations on an as-adjusted basis for the 12-month period after that date, and that the cut-off date for valuing Petitioner's plant in service be September 30, 2007. Pursuant to 170 IAC 1-1.1-15(b) of the Commission's Rules of Practice and Procedure, Petitioner requests that the Commission promptly convene a prehearing conference and preliminary hearing for the purposes of fixing a procedural schedule in this proceeding and resolving such other matters as may properly come before the Commission.

21. The names and addresses of Petitioner's attorneys in this matter, to whom all correspondence and communications in this Cause should be sent, are:

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Said attorneys are duly authorized to accept service of papers in this Cause on behalf of

Petitioner. In addition, papers filed in this proceeding should be served on:

LaTona S. Prentice
Executive Director of Regulatory Affairs
Citizens Thermal Energy
2020 N. Meridian Street
Indianapolis, Indiana 46202
E-mail: lprentice@cgcgu.com

WHEREFORE, Petitioner Citizens Thermal Energy respectfully requests that the Indiana Utility Regulatory Commission make an investigation and hold such hearings as it shall deem necessary and advisable in this proceeding; and thereafter, make and enter an Order in this Cause:

- (i) Finding that Petitioner's existing rates and charges for steam utility service are unjust, unreasonable, unlawful and inadequate to provide its annual requirements for funds to pay for those items enumerated in Indiana Code § 8-1.5-3-8;
- (ii) Determining, and by Order authorizing and approving just, reasonable, and sufficient rates and charges to be imposed by Petitioner in the future, in lieu of such present rates and charges found to be unjust and unreasonable;

- (iii) Authorizing Petitioner to revise the depreciation accrual rates applicable to its steam utility property in accordance with the depreciation study to be submitted in Petitioner's evidence herein;
- (iv) Approving the filing of quarterly applications for fuel cost adjustments;
- (v) Authorizing and approving the filing of new schedules of rates and charges and terms and conditions of service applicable to the steam service rendered by Petitioner, embodying the just, reasonable and sufficient rates and charges;
- (vi) Authorizing and approving additional requested changes to Petitioner's tariffs; and
- (vii) Granting such other and further relief as the Commission may deem necessary and appropriate.

DATED this 28th day of December, 2006

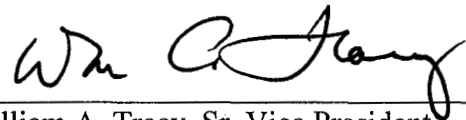
BOARD OF DIRECTORS FOR UTILITIES OF
THE DEPARTMENT OF PUBLIC UTILITIES OF
THE CITY OF INDIANAPOLIS, AS
SUCCESSOR TRUSTEE OF A PUBLIC
CHARITABLE TRUST, D/B/A CITIZENS
THERMAL ENERGY

By: _____


Sr. Vice President, Operations

STATE OF INDIANA)
)
COUNTY OF MARION) SS:

William A. Tracy, being first duly sworn upon oath, deposes and says that he is the Sr. Vice President, Operations for the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as successor trustee of a public charitable trust, d/b/a Citizens Thermal Energy, Petitioner in the above-entitled Cause; that as such officer he executed the foregoing Petition for and on behalf and in the name of said Board of Directors for Utilities, and has authority to do so; that he has read the foregoing Petition and is familiar with the contents thereof; and that the statements therein contained are true to the best of his knowledge, information and belief.



William A. Tracy, Sr. Vice President,
Operations

STATE OF INDIANA)
)
COUNTY OF MARION) SS:

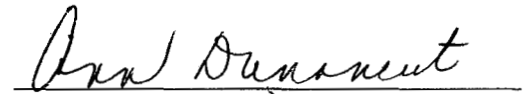
Before me, a Notary Public in and for said County and State, personally appeared William A. Tracy who acknowledged the execution of the foregoing Petition.

Witness my hand and notarial seal this 28th day of December, 2006.

My Commission Expires:


8/11/08




Notary Public
Printed: ANN DUNAVENT
Resident of HANCOCK County

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Verified Petition of the Board of Directors for Utilities was served on the Indiana Office of the Utility Consumer Counselor by delivering a copy thereof to Indiana Government Center North, 100 North Senate Avenue, Room N501, Indianapolis, Indiana 46204-2208 on the 29th day of December, 2006.


An Attorney for Petitioner
Citizens Thermal Energy

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